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Distinctive Capabilities and Strategic Thrusts of Malaysia's Institutions of Higher Learning

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Abstract

The hostile business environment in Malaysian private higher education institutions (PHEIs) has proved to be fatal to numerous institutions. While there are success stories, the issue looms as what differentiates the performers and the non performers. As such, this study was conducted to understand why some PHEIs perform better than others; and whether the differences in performance are due to the choice of strategy. Finally, this study explores whether the organisational distinctive capabilities influence towards the institution choice of strategy. Based from a sample of 97 PHEIs, the study depicts that differentiation strategy was significantly link to performance with a spectrum of organisational capabilities influencing the institution's choice of strategy.

Keywords: Distinctive capabilities, Competencies, Strategic Thrusts, Institutions, Higher learning

1. Introduction

The competition in the Malaysian PHEIs is hostile and perilous where the number of institutions that ceased operations have alarm the government. For instance in 2006, 30 PHEIs were closed (Utusan Malaysia, 2006). In addition, existing PHEIs need to cope with daunting financial challenges where these institutions face tremendous perplexities in attracting new students because they cost more to the students compared with public colleges and university. As the casualties involving the PHEIs continue to rise, essential solutions need to be crafted. The failures of these institutions could jeopardize Malaysia's intention of becoming an education hub in this region.

Clarke (1997) argued that if HEIs are to compete more aggressively, they need to determine the areas of comparative competence on which to base successful resource-led strategies. Although many institutions have a vision, it is important for HEI administrators to have a realistic grip on the institution's strongest position (Higher Education Review, 2004). Work on organizational capabilities by Snyder and Eberling (1992) suggests that an institution should look at its system of activities and assess the value that they add not only to the present revenue but also to the future potential of the organization. Burrell and Grizzell (2008) argued that the successful institutions will be those that can do strategic marketing planning, carve out niches, and develop new programs that will drive students to the institution. These organizations must exhibit to its current and future consumers that they are capable and this capability may need to be shown as their firm distinctive capabilities. Peteraf (1993) asserts that the concept of the heterogeneity of firms originating in the individual nature of their resources and capabilities is the heart of strategic managements.

King et al. (2001) argued that although managers and scholars often claim organizational capabilities is the most critical sources of competitive advantage, many firms are often vaguely aware of the value of their capabilities that they lack. Therefore, an understanding and awareness of a firm's capabilities are needed for the development of those competencies. In addition, identification of competency can point to areas where investment is required to protect or enhance the firm's competitive position.

Organizational distinctive capabilities could be the outcome of excellence in any business function. However, Woodward (1965) argued that within these capabilities, depending on the type of product/market that the firm was involved in, one of the capabilities would be more important and dominant. Fleury and Fleury (2003) reiterated that this capability should be more relevant for the achievement of the strategic objectives of a given firm and can be considered as the distinctive capabilities or the core competence of the firm. King et al. (2001) study revealed that although firm capabilities or competencies are associated with high performance, it appears that these constructs are a stronger indicator of high performance. This indicates the value and importance of a clear understanding of firm capabilities that distinguish a firm's competitive position. To emphasize this point, Fleury and Fleury (2003) argued that organization needs to concentrate on the development of firm distinctive capabilities where it needs to excel to be competitive.

1.1 Problem Statement

Based from the above arguments, it is clear that determining firms' capabilities is of paramount importance as a form of industry benchmark or rectification. In examining this issue, it is crucial that an identification of how these constellations of capabilities moulds a firm choice of strategy or how these factors strengthen the firm's strategic thrust is verified. In deciphering this relationship, could there be dinstintive capabilities that are vital for the sustainability of a particular strategy? By examining this relationship, we have corroborated towards the theory of resource-based view (Peteraf, 1993) that the concept of the heterogeneity of firms originating in the individual nature of their resources and competencies is the heart of strategic management.

Finally, the literature has remained largely at the conceptual level in discussing the link between the generic strategies and firm performance. Numerous authors agree that it should and must exist, but researchers have not determined which specific strategic practices within the generic strategy framework works best in achieving the organizational performance goals. It seems some combination of practices is more effective than others, but propositions on strategic practices have remained largely untested and there is a recognized need for empirical work in this area. This exploratory research fills this gap in the literature and considers whether specific strategic practices used by organizations are better than others when comparing employee's perceptions of firm performance.

1.2 Objectives of this Study

The problem statement depicted that it is of great importance to understand why some PHEIs perform better than others. The strategic orientations implemented by firms have been noted to influence firms' performance (Voss and Voss, 2000). In addition, echoing Day's (1994) argument, firms need to trace the organizational distinctive capabilities that would enhance firm performance.

Therefore, the aim of this study is twofold. First it intends to determine the type of strategic choice that links to firm performance. Consequently, the study would explore the institution pool of organisational capabilities that relate towards the choice of strategy.

1.3 Significance of Study

The private higher education industry in Malaysia has the potential to be a major foreign exchange earner in the future. Merill Lynch estimated roughly that around US$2 trillion can be generated from the education business (Radin Umar Radin Sohadi, 2009). In Malaysia, education is also a prime contributor to the nation's economy with estimation that each international student spends at least RM30 000 per annum. Malaysian PHEI alone contributes RM1.3 billion annually to the national economy; a large amount of it comes from revenue obtained from international students. Demand for private education is expected to rise substantially due to the higher cost of education abroad and limited funding available to students.

This study attempts to contribute towards the key success factors of Malaysian PHEIs by exploring the dynamics of the organizational distinctive capabilities of the respective private institutions. Knowledge of such key success factors of the PHEIs is limited due to many different factors. One possible factor is the lack of a full scale study to ascertain the Malaysian success factors of these colleges. Therefore, there are many stakeholders to this study. The ministry of higher education; public universities; policy makers and private colleges themselves need to learn what works and what not as an educational provider. In short, education providers and institutions have to gather a wide range of information to remain ahead of the competition.

Finally, such evaluation or assessment is important to provide information relevant to the adjustment of the roles and PHEI operation, and in order to secure their optimal contribution and development. The success of any PHEI is highly dependent on the efficiency and effectiveness of the monitoring and evaluation system, without which it may be impossible for PHEI administrators to be aware of problems in the system. As researchers, we believe that when the PHEI understand the key success factors that is important in this industry, these institutions would be able to do an "internal audit" that would determine their strengths and weaknesses or capabilities. The institutions would then calibrate their "organisational resources" with the appropriate strategy to achieve a strategic "fit".

2. Literature Review

Strategic orientations are viewed as reflections of the beliefs and mental models of senior executives (Hitt et al., 1997) and the strategic directions implemented by a firm to create the proper behaviors for the continuous superior performance (Voss and Voss, 2000). However, adopting a proper strategic orientation is not sufficient to succeed in practice. They have to be combined with organizational capabilities to enhance performance (Day, 1994) which implies the significance of organizational distinctive capabilities of a firm and our current research.

Burrell and Grizzell (2008) elaborated that the issue of whether strategy makes a difference in the performance of HEIs is unanswered but there is evidence that some institutions have done better than others by selecting a unique niche in the market; emphazing innovative programs or creating a competitive advantage in strategic areas. Therefore, it may be that an institution can achieve success by differentiating its services on the basis of identified distinctive organizational capabilities which are appropriate to the different markets it serves (Clark, 1997).

Many theories have been developed on the competitive advantage of firms. Among the theories is the resource-based view (RBV). However, in contrast to other theories that fail to acknowledge the existence of firm-specific assets and capabilities that constrain strategic options, the RBV perspective facilitates explanation of these firm-level capabilities or competencies and has been characterized as the dominant strategy paradigm (Priem, 2001). Consistent with the co-integration of the RBV and the strategic positioning construct (see Fahy and Smithee, 1999), our interpretation is consistent with Morgan et al. (2003) that attempts to link a firm's positioning strategy to its resources and capabilities. The prevailing view of strategy from the RBV is that the resources and capabilities of an organization are central to the formulation of strategy (Grant, 1998).

Distinctive capabilities refer to those things that an organization does especially well in comparison to its competitors (Selznick, 1957). Ulrich (1977) uses the term organizational capability to describe what an organization is able to do and how to do that. Capabilities are associated with groups of individual competencies that collectively turn into organizational competence. These provide the organisation with sustainable competitive advantage. Employees' competencies with business strategies play a central role for sustained competitive advantage (Barney, 1991).

Accordingly, there are now multiple ways to see organizational capabilities, and with different emphases. For example, Meyer and Utterback (1992) emphasize the special role of technology and identify R&D capability, production and manufacturing capability, and marketing capability. Leonard-Barton (1992) emphasizes the importance of knowledge and considers organizational capabilities as a complex knowledge system that includes employee skills and learning, and the technology system, managerial system, and value system of the firm. Hamel and Prahalad (1994) distinguish market-access capabilities, integrity-related capabilities and functionality-related capabilities. Hall (1994) believes those functional, cultural, positional and regulatory capabilities as a whole constitute the core competencies of a firm and determine its competitiveness. In an empirical study, Spanos and Lioukas (2001) propose that the idiosyncratic firm assets include organizational capabilities, marketing capabilities and technical capabilities. Finally, Fowler et al. (2000) argue that there exist three types of capabilities: technological capabilities, market-driven and integration capabilities.

We argue that organizational capabilities could be the outcome of excellence in any business function. Scholars believe that organizational distinctive capabilities result from capabilities integrated across functional lines, and can be deployed across multiple product markets to leverage firm-specific value-added activities and processes. In addition, the organizational competencies for this study are built around the SME Competitive Rating for Enhancement Tool (SCORE) dimensions developed by Malaysia's Small and Medium Industry Development Corporation (SMIDEC) with several emphasis and modifications appropriate for the services industry mainly PHEIs. In this study, we proposed that the organizational capabilities are based on the functional lines and also the nature of the industry. This comprises of marketing, management, financial and technical capabilities. With regards to the nature of the industry, other capabilities relevant in this line of business are quality management and innovation capabilities.

As one of the major constituents of organizational capabilities, marketing capabilities are defined as the capabilities and processes designed to apply the collective knowledge, skills and resources of the firm to its market related needs, thus contributing greatly by adding value to its goods and services to meet the competitive demands of customers. Therefore, marketing capabilities are grounded in capabilities that enable a firm to make a profound understanding of customers' current and future needs and preferences relevant influential factors, and capabilities in forecasting of competitors' possible actions (Day, 1994; Srivastava et al., 1998, 2001). Management capabilities on the other hand are essential to sound business practice. Many managerial and organizational studies use a range of terms for capabilities such as, management process, roles and skills to include all of these managerial requirements. Meanwhile, financial management capabilities are the ability to understand financial processes and metrics and to use that information in improving the organization's efficiency and effectiveness. These include analytical thinking, business acumen and project planning and management

Technical capabilities relate to the operational aspects of firms business processes. Examples of technical capability can be evident in the services technical dimensions where specialist training or experience maybe evident. Similar foundation can also be found in the delivery or service oriented aspects of marketing activity. For firms to survive in a volatile environment, they must be innovative (Johnson et al., 1997). Innovative firms are more receptive to change and are more likely to be successful in using technology to achieve competitive advantage (Gatian et al., 1995). Therefore, Allen (1977) and Rothwell (1992) asserted that a firm that possesses innovation capability would exploit information systems not just for routine operations but also for spotting opportunities for innovation.

Finally, the issue of quality management at the HEI is under constant discussion, often being driven by government pressure to do more, with fewer resources, in addition to the calls from other stakeholders including parents and employers. Quality management ensures that there are quality control procedures or verification procedures for all programs and services and that these are conducted by persons other than those who directly produce or provide i.e. lecturers and administrators (Evans 1999). Quality management is also responsible for the review of the quality system including regular reviews of documented policies and procedures.

Therefore, as proposed in this research, we argue that the organizational capabilities discussed in this section would influence firm choices of strategic options. Depending on the strategic fit of firm strategic choice and organizational capabilities, the appropriate fit would influence firm performance. The proposed relationship of this study is illustrated in Figure 1 of the research conceptual framework.

3. Research Methodology

To address the research objectives of this study, a three-pronged research design were employed. The first phase, which was intended for theory generation, adopted the exploratory research approach, where qualitative data were collected and the initial assumptions were refined and used as hypotheses for the following stage. The latter stage adopted the descriptive research approach. In this stage, empirical data in the form of survey research were gathered and used for validating and testing the developed theory. Finally, the third phase is meant to increase the validity of the associated findings. Therefore, the case selection is theory driven and used as part of a triangulation approach for further in-depth analysis.

In the process of determining the pertinent research constructs, the first phase research approach comprising of focus group interviews were carried out. The group consisted of industry regulator and associations. Based from the interviews, it was corroborated that the research constructs were pertinent. The second phase consisted of mail survey. The items in the questionnaire were derived from previous studies and information from the focus group. In the final phase, a case study approach was adopted where in-depth interviews comprising the top management team, administrators, lecturers and students were conducted.

3.1 Sampling Frame and Data Collection

The sampling frame for this study was based from the Malaysian Ministry of Higher Education (MOHE) database. All the PHEIs (450 institutions) were selected for the data collection through posted mail. The questionnaires were addressed personally to the most senior manager of the institutions. No follow up calls were conducted after the 14 working days dateline has passed. The questionnaires were sent in one wave. After the dateline, a total of 98 responses were collected. This represents 21.5 per cent response rate.

3.2 Descriptive Findings

The descriptive analysis of the mail survey was based on the 98 responses. However, due to large missing values, one of the cases has to be omitted. Based on the firms' description, the sample represents the population where over 80 per cent of the firms are considered as Small and Medium size as reflective in the population with regards to their sales turnover. Based from the database, 90 per cent of the institutions are classified as non university status that is also small and medium size in nature. According to the Malaysian Ministry of International Trade and Industry classification, firms with turnover of RM 25 million and above are classified as large while those below RM 25 million are considered as SMEs. Nevertheless, there are 24 respondents who did not respond to the sales turnover question.

A majority of the institutions (50 per cent) had been established for more than 12 years. Their long years of existence mean that these firms were well established with their own business strategy and organizational capabilities. These institutions could also comment on their performance since the gestation period for this sector is about 10 years according to the information gathered from the focus groups. Potential non response bias was assessed and no significant differences were found.

3.3 Measurement and Scale Purification

The survey instrument included psychometric scales to measure organizational capabilities that comprise of marketing, management, financial, quality management, innovation and technical capabilities; firm generic strategies consist of low cost leadership, differentiation and focus and finally firm performance. Each of the multi-item measures were based on five-point Likert-type scales anchored as described within each measure. Most of the measures were adopted from previous studies where possible. However, some of the measures (i.e. financial capabilities, technical capabilities) were newly developed for this study from a combination of previous studies and the findings from the focus group.

The scales were later subjected to exploratory factor analysis (EFA). Once the relationships were verified, the reliability of the scales was examined. Overall, each item exhibits an acceptable level of internal reliability of alpha 0.70 (Nunnally, 1978). However, although focus strategy was 0.64, it exceeds Nunally's (1967) reliability measure of 0.50 for exploratory research. Table 1 describes the results. The EFA column shows the final number of items after deletion due to cross loadings while some were reclassified to represent other related measures.

4. Findings and Discussion

Table 2 illustrates the regression results of the institution generic strategy and performance as the criterion variable. The results supported our first aim where only differentiation strategy influences organization performance. As the other two strategies were not significant, the following analysis on organizational capabilities was only done with differentiation strategy as the criterion variable. Table 3 illustrates the organizational capabilities that were pertinent in explaining the differentiation strategy was marketing, management, quality management, innovation and technical capabilities.

The empirical results tend to corroborate our findings in the focus group interviews and case studies. Initially, the differentiation strategy means that the institution has developed a brand positioning in the market, developing a broad range of programmes, foster innovation and creativity and finally their marketing activities and programme deliveries are innovative. The industry associations opined that cheap fees are not attractive to students since it is normally associated with low quality and unpleasant institutions. On the other hand, there's a tendency to associate high tuition fees with "quality service and institutions". Therefore, while the institutions are taking measures of improving their operations effectiveness and efficiency, the "cost leadership" may not be projected in the tuition fees. Meanwhile, institutions that tend to focus on specific areas are relatively new and since the gestation period in the industry is relatively quite long, the fruits of their strategy are yet to be realized. In addition, a common complain raised by the industry operators is that the market is not big enough for focus programme or to put it in another manner, there is simply not "enough" students in the private higher education market.

With regards to the organizational capabilities, the insights from the case study were illustrative. Based from the EFA results, two items which are effective pricing and location facilities that initially represent marketing capabilities were regroup as management capabilities. In addition, the stepwise regression results depicted that the financial capabilities were not significant. However, our conclusion in the case study analysis demonstrated that *the top management* considered the "standard operating protocols" of their marketing and financial exercise as part of the management capabilities. Meanwhile, the marketing capabilities which comprises of understanding their customers, competitors, industry trends and their knowledge and skills in segmentation is considered as an "extra" ingenuity that differentiate the successful than the non performers.

One of the important requirements compelled by the government regulations and professional bodies in institutions of higher learning is strict adherence of quality procedures towards their academic programmes. Institutions that are able to follow the requirements would get the recognition from the relevant ministries in addition to professional bodies' acknowledgement of their programmes and their graduates. This in turn attracts potential students to their institutions and a achievements for institutional "differentiation".

Finally, innovation and technical capabilities are both required in the knowledge delivery process of the respective programmes. The students and industry assessment of how the programme was delivered influence the institution's image among students, parents and industry. The case study findings illustrates that the institution has to be innovative and improve their technical capabilities in order to deliver "good students" that would ultimately improve their employability rates – which is one of the ratings among PHEIs.

5. Conclusion

The findings in this study demonstrate that it is important for PHEIs to identify and develop its organizational capabilities. Although institutions need to possess a constellation of organizational capabilities to have an impact on organizational performance, marketing seems to be the distinctive capability. Management capability serves as supporting marketing that would ultimately contribute to the organization's institutional image. Our findings corroborate Day (1994) and Srivastava et al. (1998) findings that identified marketing as the distinctive capability and management as the supporting capability in an organization.

Whilst it may be appropriate for an organization to have a full complement of the capabilities, it is unlikely that any institution can hope to have all attributes in meaningful abundance. However, it is the majority of people between the two extremes of very good and very bad, who may not be 'born to the task' but who have the ability to learn to do the task better. Given that the majority of managers running the PHEIs are not natural 'born' marketers or business managers, the implications of these study findings are enormous.

5.1 Managerial Implications

This research offers a number of additional research issues that could add to our understanding of capability-centered practices and their contribution to superior firm performance. For example, in the findings of our study, albeit exploratory, shed light on important sources of competitive advantage to firms that wish to enter, capitalize upon and exploit the private higher education market. In particular, the findings of the current study establish the importance of different constituents of distinctive capability in a developing country setting and provide support for different constituents of capabilities as differentiated powerful drivers of business performance in the changed economic climate. This study also underscores the necessity of incorporating the constituents of distinctive capability to obtain a sustainable competitive advantage by relating the superiority of specific constituent of firm distinctive capability to performance measures.

Specifically, the managerial implications can be summarized as follows: first, our findings encourage management to incorporate the major constituents of the firm distinctive capabilities into value creation and delivery process and take all of them into consideration when making decisions about how to build, leverage and upgrade a firm's overall core capabilities with limited resources so that superior performance can be achieved. Each of the major constituents should not be ignored and firms, therefore, should focus on the dynamics of capabilities development as a whole.

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Table 1. Reliability and Scale Validation

Scale	Original Items	After EFA	Cronbach Alpha Coefficient
Marketing Capability	9	4	0.80
Management Capability	4	6	0.82
Financial Capability	4	4	0.90
Quality Management Capability	4	4	0.85
Innovation Capability	4	3	0.84
Technical Capability	4	3	0.74
Cost Leadership Strategy	4	2	0.83
Differentiation Strategy	4	7	0.90
Focus Strategy	4	3	0.64
Firm Performance	4	4	0.90